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1994 AMA SURVEY ON TRENDS IN CORPORATE FINANCE

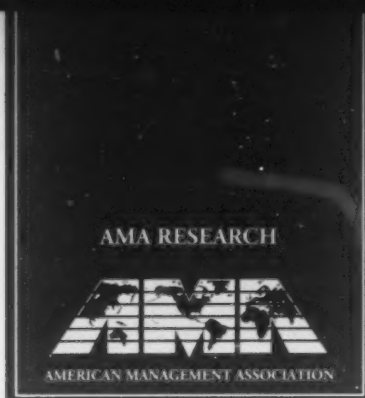
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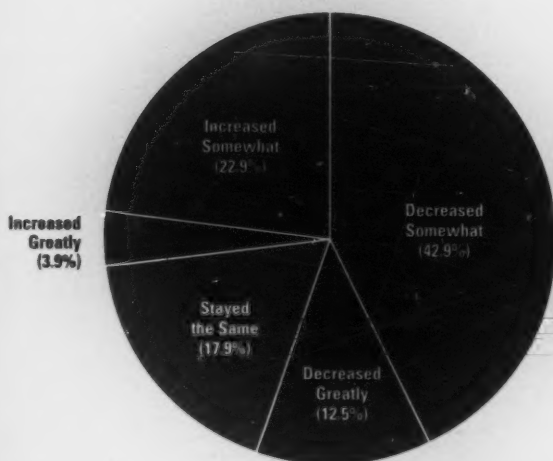
TRENDS IN CORPORATE FINANCE

As this AMA Research Report was being drawn, the Federal Reserve Board announced an increase in its Federal Funds rate from three to three-and-one-quarter percent. This slight adjustment in the rate that banks are charged for short-term borrowing reverberated through the financial markets; the Dow Jones Industrial Average dropped 97 points the following day.

Why such a strong reaction? It was the first time in five years that the Federal Reserve had raised any interest rate. Since 1989, the trend at the Fed, and among all other lenders, has been steadily downward, through the 1990-91 recession and the slow-growth recovery that followed.

But this downward spiral in interest rates has not ushered in an era of easy money. Although a majority of the financial officers responding to this AMA survey agree that the cost of capital relative to risk has diminished since 1988, only 28 percent say that obtaining a commercial loan from a U.S. domestic bank is easier today than it was five years ago. Nearly half — and over 60 percent of those who work in smaller companies — say the opposite.

**COST OF CAPITAL
RELATIVE TO RISK,
TODAY vs. FIVE YEARS AGO**



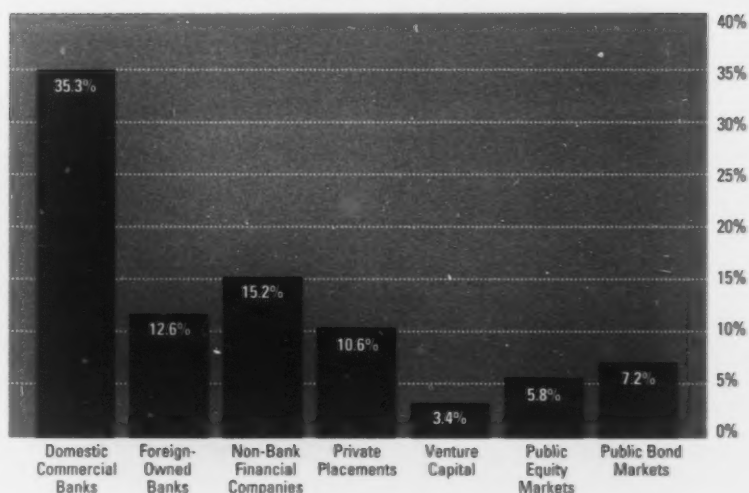
**OBTAINING FUNDS FROM
DOMESTIC COMMERCIAL BANKS,
TODAY vs. FIVE YEARS AGO**





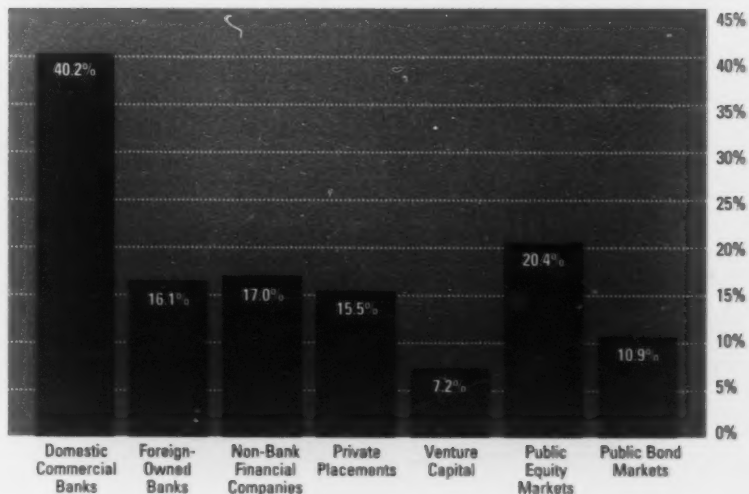
**PCT OF RESPONDENTS MORE RELIANT TODAY
THAN FIVE YEARS AGO ON:**

The current contradiction — that money costs less, but is more difficult to obtain from domestic commercial banks — has led to a far-reaching search for other lenders. Thirty-seven percent of respondent firms say they are more reliant today on sources *other* than domestic commercial banks than they were five years ago. The biggest winner: non-bank financial service companies.



**PCT OF RESPONDENTS FORECASTING GREATER
RELiance FIVE YEARS FROM NOW ON:**

The data indicates that the trend will continue into the future. Forty-seven percent of respondent firms expect to become more reliant than today on other sources of capital over the next five years.

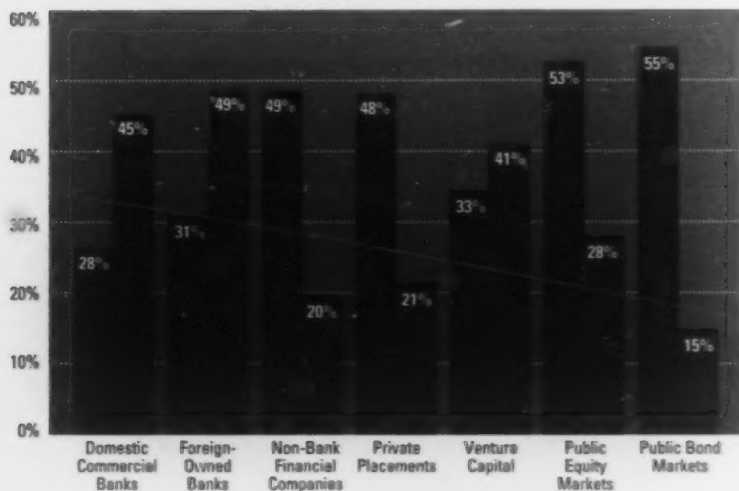


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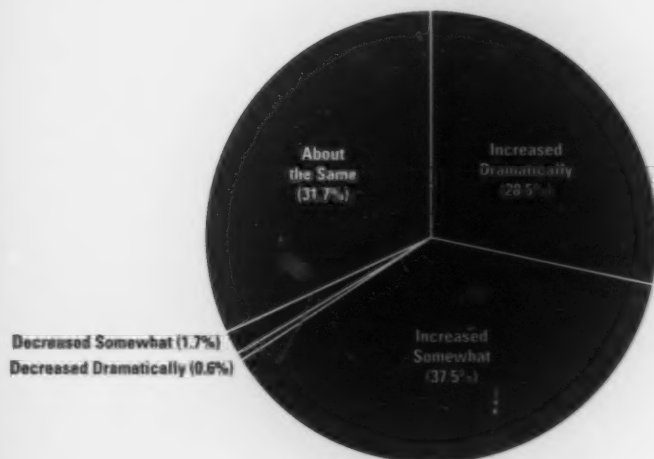
OBTAINING FUNDS FROM SOURCES, TODAY vs. FIVE YEARS AGO



Only 30 percent of AMA respondents say it's easier to obtain funds from banks (domestic and foreign) and venture capitalists today than five years ago; nearly half say it's more difficult. The reverse is true concerning public equity and bond markets, private placements, and non-bank financial service firms.

■ Easier
■ More Difficult

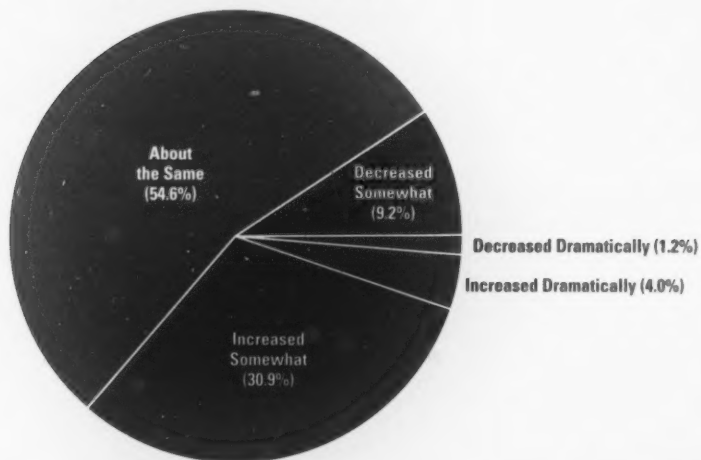
IMPORTANCE OF CREDIT RATING TODAY vs. FIVE YEARS AGO



With new and additional sources of capital on call, improving or preserving the corporation's credit rating has become more important to a majority of respondents.

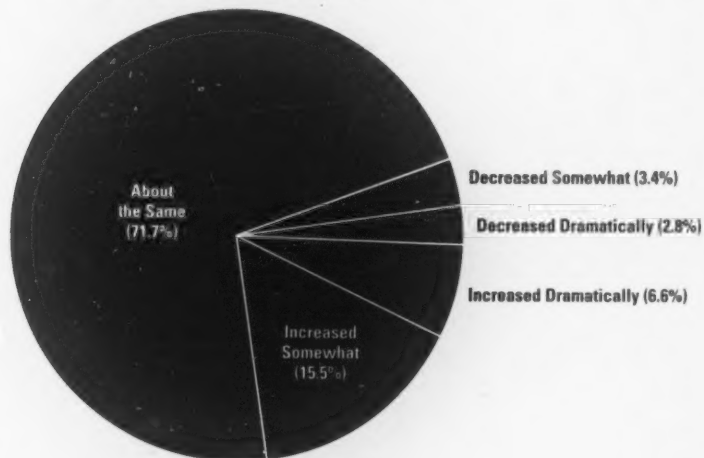


**NUMBER OF BANKS DEALT WITH
TODAY vs. FIVE YEARS AGO**



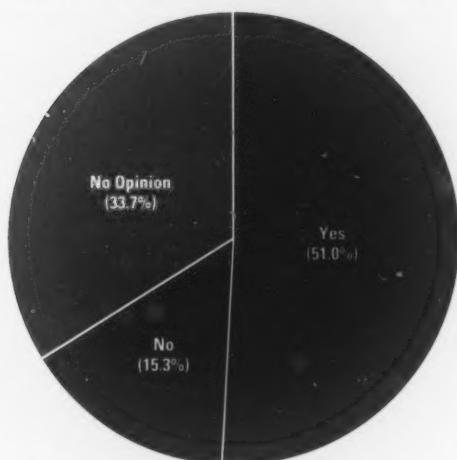
While domestic banks remain the primary source for corporate borrowing, companies seeking bank funding have cast a wider net. One-third report an increase in the *number* of domestic banks with which they do business; 21 percent report an increase in the number of foreign-owned banks with which they deal.

**NUMBER OF FOREIGN-OWNED BANKS DEALT WITH
TODAY vs. FIVE YEARS AGO**



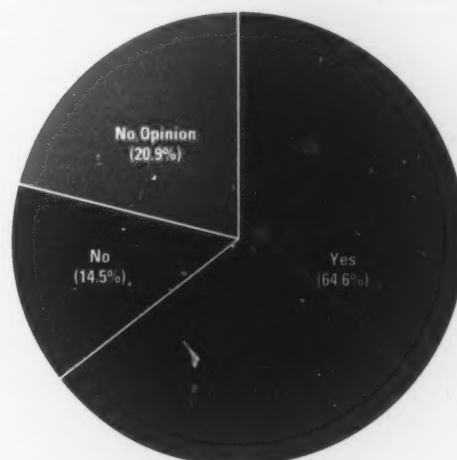


**SHOULD COMMERCIAL BANKS BE FREER
TO OFFER INVESTMENT BANKING SERVICES?**



Most respondents favor fewer restrictions on the activities of commercial banks.

**SHOULD NON-BANKS BE SUBJECT TO THE SAME
REGULATIONS AS COMMERCIAL BANKS?**



At the same time, to "level the playing field," respondents want non-bank sources to be regulated in much the same manner as commercial banks.

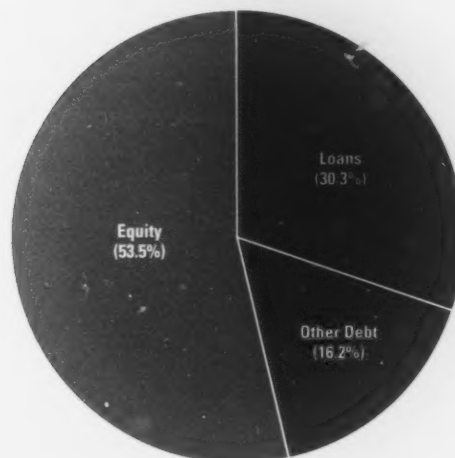
**EXPECT TO RELY ON COMMERCIAL BANKS
FOR TRADITIONAL INVESTMENT SERVICES**



But opinions to the contrary notwithstanding, fewer than one-fourth of survey respondents expect to use commercial banks in the future for services traditionally offered by investment firms.

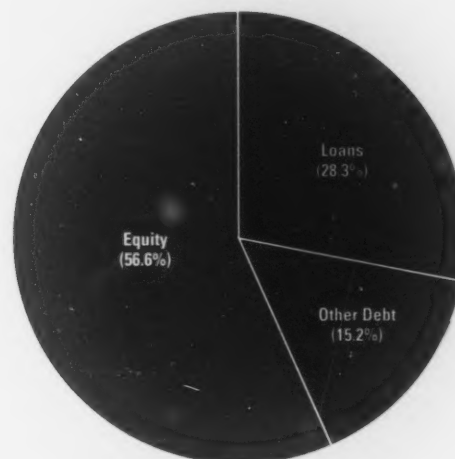


**APPORTIONMENT OF TOTAL CAPITAL, 1988
(AVERAGES)**



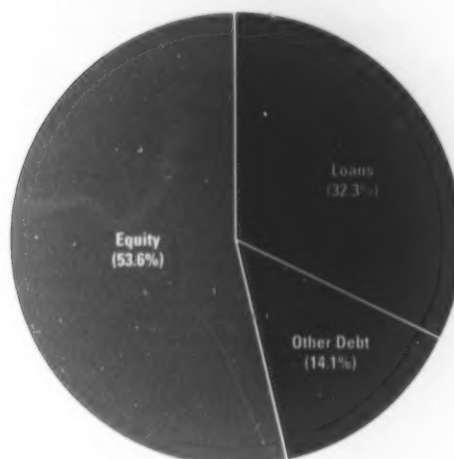
Although the cost of borrowed money has fallen since 1988, only 30 percent of respondent firms have increased their debt relative to equity. With the exception of the sample's smallest companies, total capital today is apportioned very much as it was five years ago.

**APPORTIONMENT OF TOTAL CAPITAL TODAY
(AVERAGES)**



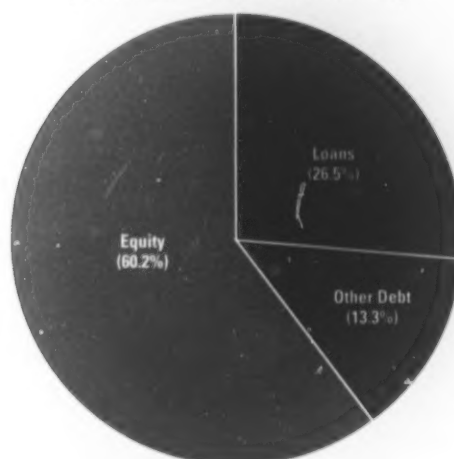


**APPORTIONMENT OF TOTAL CAPITAL, 1988
(AVERAGES—SMALL COMPANIES)**



Unlike larger firms, companies that gross less than \$10 million annually have been paying down their debt and building equity over the past five years.

**APPORTIONMENT OF TOTAL CAPITAL TODAY
(AVERAGES—SMALL COMPANIES)**



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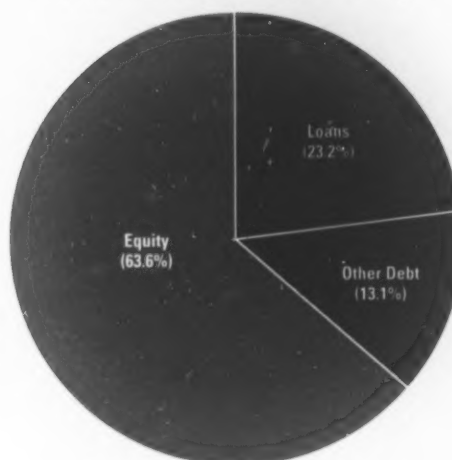
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COST OF CAPITAL RELATIVE TO RISK OVER THE COMING FIVE YEARS

Respondents expect that the current, comparatively low cost of capital relative to risk will not last long. More than half forecast a reversal of the recent trend in the coming five years.



APPORTIONMENT OF TOTAL CAPITAL, FIVE-YEAR FORECAST (AVERAGES)



Because borrowed money will cost more, companies expect to pay down both loans and other forms of debt, increasing their equity as a percentage of total capital.



ABOUT THIS SURVEY

AMA Research mailed its questionnaire on Trends in Corporate Finance to financial managers in AMA-member companies in October 1993. By mid-December, 348 usable questionnaires had been returned. Of these, 76.7% were privately held, 22.1% were publicly traded, and 1.4% did not indicate their ownership category. This self-selecting sample presents the following profile:

Annual Sales or Budget	Privately Owned	Publicly Traded	Whole Sample
Under \$10 million	20.2%	5.2%	17.0%
\$10 to \$49.9 million	46.1%	13.0%	38.5%
\$50 to \$249.9 million	23.6%	39.0%	27.0%
\$250 million or more	9.4%	40.3%	16.4%
No answer	0.7%	2.6%	1.2%

Business Category	Privately Owned	Publicly Traded	Whole Sample
Manufacturing	50.9%	48.1%	50.0%
General Services	16.5%	15.6%	16.9%
Financial Services	7.5%	13.0%	8.6%
Business & Professional Services	12.0%	7.8%	10.9%
Wholesale & Retail Trade	10.9%	5.2%	9.5%
Regulated Utilities	2.3%	9.1%	4.3%
Unclassified or Unclassifiable	0.0%	1.3%	0.3%